High U.S. gas prices idle new power plants

NEW YORK, April 8 (Reuters) -

The high cost of natural gas and low electricity prices in the United States are keeping most of the nation's fleet of new gas-fired power plants idle because they are simply too expensive to operate.

"Right now, we are in a period of extremely high gas prices and extremely depressed power prices. The economics of gas plants is very poor," said energy consultant Randy McAdams of Scott, Madden & Associates in Richmond, Virginia.

Ultimately, McAdams noted, the gas plants, which are more efficient and cleaner than other fossil burning plants, will likely run in the summer when demand for electricity peaks as homeowners crank up their air conditioners to escape the heat.

Natural gas prices hit all-time record highs this year after a cold winter drained inventories, and are still hovering above $5 per million British thermal units (mmBtu), well above historic norms.

Wholesale power prices, meanwhile, have been pulled down by a glut of new generation and a slumping economy, which has slowed the industrial and commercial demand for electricity.

More than 300,000 megawatts of new gas plants are expected to enter service between 1998 and 2007, enough to power about 300 million homes, according to the latest data from Virginia-based consultants Energy Ventures Analysis Inc.

Almost all the U.S. plants built since 1998 use natural gas because that fuel burns far cleaner than coal and is produced in North America, easing the country's dependence on foreign oil.

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When the new gas plants were built, energy experts predicted they would displace a host of old coal and oil-fired plants, some in service for more than 50 years.

But that scenario assumed a much lower natural gas price.

"With gas at these levels, it's cheaper to buy power in the market than to generate it," said energy consultant Harold Burnham of Energy Advisory Group Inc. in Houston.

In a competitive market, generators offer to sell and utilities bid to buy electricity. A grid operator matches the supply and demand needs by selecting the lowest-cost plants available. The bid of the most expensive plant selected to run is used to set the wholesale market clearing price.

Although oil and gas units receive much of the energy market's attention, since they often set the clearing price, they account for only 20 percent of the power supply, according to data from the U.S. Energy Information Administration (EIA).

Coal and nuclear units, meanwhile, generate the bulk of the nation's electricity -- about 70 percent -- while hydropower and other renewables generate the remaining 10 percent, EIA said.

Over much of the past year, energy companies with plants capable of burning both gas and oil in New York City, the nation's biggest population center, have opted for oil because the fuel is almost $2 per mmBtu cheaper than gas.

At today's prices, natural gas costs about $5.50 per mmBtu, while oil costs near $3.75 per mmBtu. Coal, meanwhile, costs just a little over $1 per mmBtu, making it by far the cheapest of the fossil fuels.

Power generators' move away from gas is already starting to show up in national energy statistics.

The EIA on Tuesday sliced its forecast of annual growth in gas demand this year to 2.7 percent, down from 3.7 percent just a month ago, pinning most of the revision on a big drop in demand from power plants.

Until recently, Williams Cos. Inc. of Tulsa, Oklahoma, said it kept a couple of new gas plants in New Jersey and Pennsylvania idle for months, partly because the company could buy power more cheaply to satisfy customer demand.

In New England, PPL Corp. of Allentown, Pennsylvania, last week asked federal regulators if it could deactivate four of five units at the recently completed Wallingford gas plant in Connecticut or be paid more to keep the units operating.

PPL said it cannot continue to run the four Wallingford units when prices it expects to receive for the electricity will not even cover the cost of keeping the facility in operation.

"If grid operators decide we need these gas plants for reliability purposes, then (the operators) need to think about paying more to keep the plants available especially when the plants don't run," suggested Energy Advisory Group's Burnham.

"All merchant (energy companies) have to at least consider shutting their new gas plants or seek above-market rates. The only plants not in danger of being shut are those with power purchase contracts in place," Burnham said, noting PPL did not want to shut the fifth unit at Wallingford because the company already sells the power from that plant under a contract.

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